



A REPORT
TO THE
MONTANA
LEGISLATURE

LEGISLATIVE AUDIT
DIVISION

18P-03

PERFORMANCE AUDIT

Tourism Marketing and Promotion

Department of Commerce

OCTOBER 2019

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PERFORMANCE AUDITS

Performance audits conducted by the Legislative Audit Division are designed to assess state government operations. From the audit work, a determination is made as to whether agencies and programs are accomplishing their purposes, and whether they can do so with greater efficiency and economy.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Members of the performance audit staff hold degrees in disciplines appropriate to the audit process.

Performance audits are conducted at the request of the Legislative Audit Committee, which is a bicameral and bipartisan standing committee of the Montana Legislature. The committee consists of six members of the Senate and six members of the House of Representatives.

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October 2019

The Legislative Audit Committee
of the Montana State Legislature:

This is our performance audit of Tourism Marketing and Promotion activities managed by the Department of Commerce.

This report includes recommendations for improving the selection and evaluation of tourism grants, the research support and evaluation of marketing activities managed by regional tourism organizations across the state, and the overall documentation of tourism activities managed by the department. A written response from the Department of Commerce is included at the end of the report.

We wish to express our appreciation to the Department of Commerce personnel for their cooperation and assistance during the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

Department of Commerce

Tara Rice, Director

Jennifer Pelej, Administrator, Montana Office of Tourism and Business Development

Jan Stoddard, Industry Services & Outreach Bureau Chief

Anna Marie Moe, Budget & Operations Bureau Chief

Tourism Advisory Council

			<u>Terms Expire</u>
			<u>July 1</u>
Glenniss Indreland, Chair	Bozeman		2020
Katie Grice, Vice-Chair	Big Sky		2019
Alger Swingley	Great Falls		2021
Bill McGladdery	Butte		2019
Brian Sprenger	Belgrade		2021
Jeff Ewelt	Billings		2020
Joe Willauer	Butte		2021
Dr. Kenneth Ryan	Poplar		2020
Lindzy Brunson	Kalispell		2019
Patricia McGlynn	Kalispell		2019
Rachel Gregg	Missoula		2019
Rhonda Fitzgerald	Whitefish		2019
Sandi Luckey	East Helena		2020
Sandra Johnson Thares	Great Falls		2020
Steve Wahrlich	Billings		2020
Tami Burke	Glasgow		2021

PERFORMANCE AUDIT

Tourism Marketing and Promotion
Department of Commerce

OCTOBER 2019

18P-03

REPORT SUMMARY

In 2018, 12.4 million out-of-state visitors contributed \$3.7 billion in travel spending to Montana's economy. The Department of Commerce (department) is responsible for marketing and promoting the state to encourage nonresidents to visit the state and its communities, including managing a statewide marketing contract, administering tourism grants, and overseeing bed tax expenditures to regional tourism organizations. Our work found there are opportunities for the department to strengthen transparency and accountability regarding how they review and evaluate tourism grants, including the support and evaluation of bed tax expenditures relating to tourism promotion, which totaled over \$8 million in fiscal year 2017.

Context

The department markets the state, administers a tourism grant program, and distributes Lodging Facility Use Tax resources—commonly referred to as the bed tax—collected from hotels, bed and breakfasts, guest ranches, resorts, and campgrounds to regional tourism organizations. These various tourism-related promotion activities are managed by the department's Montana Office of Tourism and Business Development. Audit work identified potential risks related to several tourism activities managed by the department, including how tourism grants are reviewed and selected, how a statewide marketing contract was selected by the department, and how the department oversees the expenditure of bed tax funds distributed to regional nonprofit tourism organizations. Consequently, as part of our work, we reviewed the selection process for tourism grants issued by the department in fiscal year 2017. We also reviewed the selection process for the statewide marketing contract in 2016 and the distribution and oversight of bed tax funds to those regional tourism organizations for the period of fiscal year 2017. Currently, Montana is organized into six tourism regions, containing 19 Convention &

Visitor Bureaus (CVB), which are regional nonprofit tourism organizations.

Results

We evaluated the department's process for selecting a vendor to administer the state's marketing contract. We found the department followed best practices in the request-for-proposal process, including putting controls in place to mitigate potential conflicts of interest with department staff in the selection process. We also found the department actively manages the state marketing contract. There are current contractor performance concerns for the department to consider in the future when deciding if the contract should be extended. We also identified a lack of consistent support regarding how the department reviewed and awarded tourism grants, including how the results of those grants are evaluated. We noted there was limited justification for how the department determined which grants to award, with no documentation for several of those grants. In addition, final evaluative reports did not always indicate if the project

(continued on back)

was a success or met proposed goals. The department should develop and implement review and award procedures and define expectations to measure the impact of the grants. Similarly, the department and the Tourism Advisory Council should improve oversight of the tourism regions and CVBs to clarify and enforce methodology research and evaluation requirements for marketing methods funded by bed tax resources. The department should take steps to prioritize and clarify documentation requirements for issuing tourism grants and financial reporting processes.

Audit recommendations address the need for the department to provide additional transparency and accountability for several tourism-related activities, including the need to strengthen documentation requirements. Recommendations include:

- ◆ Developing and implementing procedures for its tourism grant program to document and support grant award decisions based on established grant award criteria,
- ◆ Defining expectations to measurably evaluate the impact of tourism grants, including developing a structured template for grantees to use for final reporting,
- ◆ Working in conjunction with the Tourism Advisory Council to improve its oversight of Tourism Regions and Convention & Visitor Bureaus to clarify and enforce methodology research and evaluation requirements, and
- ◆ Prioritizing and clarifying documentation requirements for issuing tourism grants and required financial reporting processes for Tourism Regions and Convention & Visitor Bureaus.

Recommendation Concurrence	
Concur	4
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

For a complete copy of the report (18P-03) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at <https://leg.mt.gov/lad/audit-reports>
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Chapter I – Introduction and Background

Introduction

Travel and tourism-related activities provide economic growth opportunities for states. Many states, including Montana, direct resources towards public tourism promotion to attract out-of-state visitors and promote tourism growth. According to the Institute for Tourism and Recreation Research (ITRR) located at the University of Montana, 12.4 million out-of-state visitors contributed \$3.7 billion in travel spending to Montana's economy in 2018. In Montana, the Department of Commerce (department) is responsible for marketing and promoting the state to encourage nonresidents to visit the state and its communities. The department markets the state, administers a tourism grant program, and distributes Lodging Facility Use Tax resources—commonly referred to as the bed tax—collected from hotels, bed and breakfasts, guest ranches, resorts, and campgrounds to regional tourism organizations. These various tourism-related promotion activities are managed by the department's Montana Office of Tourism and Business Development (MOTBD). Based on legislative interest, the Legislative Audit Committee prioritized a performance audit of the effectiveness of department activities to promote Montana as a tourist destination.

Audit Objectives, Scope, and Methodologies

We developed the following audit objectives as part of our examination of tourism-related activities.

- ♦ Does the department monitor the impact and effectiveness of its tourism marketing activities?
- ♦ Does the department ensure the Regions and Convention & Visitor Bureaus expend state bed tax funds in accordance with statutory and department requirements, including measuring outcomes of regional tourism marketing efforts?

During our audit assessment work, we identified potential risks related to several tourism activities managed by the department, including how tourism grants are reviewed and selected, how a statewide marketing contractor was selected by the department, and how the department oversees the expenditure of bed tax funds distributed to regional nonprofit tourism organizations. Consequently, as part of our work, we reviewed the selection process for tourism grants issued by the department in fiscal year 2017. We also reviewed the selection process for the statewide marketing contract in 2016 and the distribution and oversight of bed tax funds to those regional tourism organizations for the period of fiscal year 2017. Currently, Montana is organized into six tourism regions, which includes 19 Convention & Visitor Bureaus (CVB), which are regional

nonprofit tourism organizations. To accomplish our work, we completed the following methodologies.

- ♦ Reviewed relevant state laws, administrative rules, and department policies.
- ♦ Reviewed 78 tourism grant applications and 33 awards for fiscal year 2017 to evaluate how grants are selected and monitored.
- ♦ Reviewed department administration of the 2016 Request for Proposal (RFP) for the state marketing contract to assess how the current contract was selected.
- ♦ Conducted interviews with the Department of Administration's State Procurement Bureau to understand the procurement process used to select the state marketing contract.
- ♦ Reviewed the department's administration of the state marketing contract to check for contract compliance.
- ♦ Interviewed the ITRR to gain an understanding of their role in researching the impact of tourism across Montana and providing visitation estimates and other metrics.
- ♦ Reviewed how the department evaluates the impact of tourism activities in the state.
- ♦ Interviewed tourism officials in other states to gauge best practices in state-sponsored tourism activities.
- ♦ Conducted data analysis examining the distribution of tourism grants, nonresident visitation, nonresident expenditures, and bed tax revenues.
- ♦ Interviewed department staff and Tourism Advisory Council members to gain an understanding of the oversight of state bed tax expenditures.
- ♦ Reviewed marketing plans and financial audits of regional tourism organizations for fiscal year 2017.
- ♦ Visited 13 regional tourism organizations across the state to learn more about how they operate and gain their perspective on state oversight activities.
- ♦ Surveyed all six tourism regions and 19 CVB regional tourism organizations to gauge their opinion of state marketing activities and oversight.

Department of Commerce Role

The Montana Department of Commerce works with statewide and local partners, from private industry and small businesses, to enhance and sustain economic prosperity in Montana. To carry out this mission, the department has three divisions: the Montana Office of Tourism and Business Development (MOTBD), Housing, and Community Development. MOTBD aims to support businesses through technical assistance, research, and access to grants and loans while promoting visitation and film development to maximize the economic impact of tourism. Its tourism marketing and promotion activities are outlined in §15-65-121(2), MCA, which calls for the department to use its share of the 4 percent Lodging Tax for tourism and film

promotion. This law provides the department broad discretion in how it focuses on promoting and marketing Montana, which includes national marketing campaigns and distributing tourism grants across the state to spur promotion and tourism asset and infrastructure development at the local level. The department also oversees the distribution of bed tax funding to regional tourism organizations. In fiscal year 2017, MOTBD's total budget from all funding sources was roughly \$44.3 million. This includes nearly \$17 million raised from the 4 percent bed tax for use in areas like the state marketing contract, tourism grants, and motion picture location promotion. In fiscal year 2017, MOTBD was allocated 62.85 FTE. However, tourism promotion is approximately half of what the division does, with business development activities also managed by the division. We did not review those activities as part of our audit work.

State Marketing Contract

The department contracts with an advertising agency to market and promote the state of Montana to nonresident visitors. This advertising agency is referred to as the state's 'agency of record' and has responsibilities in public relations, social media, media planning and buying, and web marketing. For the remainder of this report we refer to the agency of record as a vendor. The vendor is to act as a partner with the department in developing and implementing comprehensive and integrated marketing programs that promote Montana as a year-round travel destination. The vendor was selected through a competitive RFP process. The performance of the vendor is evaluated annually by the department, and the contract may be renewed annually for up to seven years before another RFP is required. The department has contracted with the current vendor since August 2016. Table 1 outlines what the department has paid the vendor for tourism promotion activities each year since the inception of the contract.

Table 1
Annual Tourism Contract Expenditures
FY 2017–2019

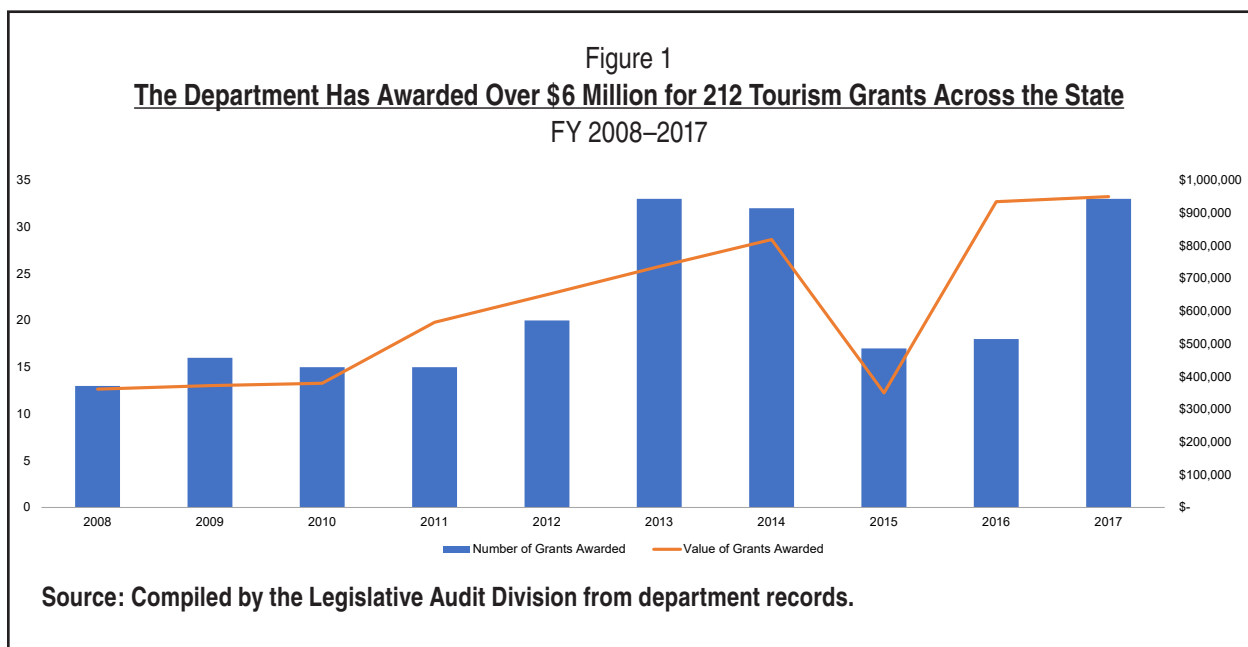
Fiscal Year	Total Expenditures
2017	\$10,334,230
2018	\$10,080,144
2019	\$12,396,561

Source: Compiled by the Legislative Audit Division from department records.

The above amounts represent cumulative reimbursement to the vendor for each fiscal year it has been contracted by the department. Annual spending varies based on the type and frequency of promotion activities, with a schedule of hourly rates established in the contract for each service. The nature of this spending is directly related to the marketing and promotion of Montana as a travel destination for nonresident visitors. This includes integrated seasonal marketing campaigns, such as promoting skiing destinations, and conducting analysis of market trends and campaign effectiveness.

Tourism Grants

MOTBD also administers a tourism grant program that awards funds to projects to develop Montana's tourism and recreation industry. Funds are awarded to projects catered to increasing nonresident visitation. The program is funded through Montana's current 4 percent bed tax. The grant program is not outlined specifically in statute or administrative rule. However, the department has broad authority in §15-65-121, MCA, to use bed tax funds for tourism promotion. From fiscal year 2008 through 2017, the department has awarded over \$6 million for 212 tourism grants across the state. The figure below illustrates the number of grants and dollar awards of tourism grants issued by the department from fiscal year 2008 through 2017.



Tourism Advisory Council

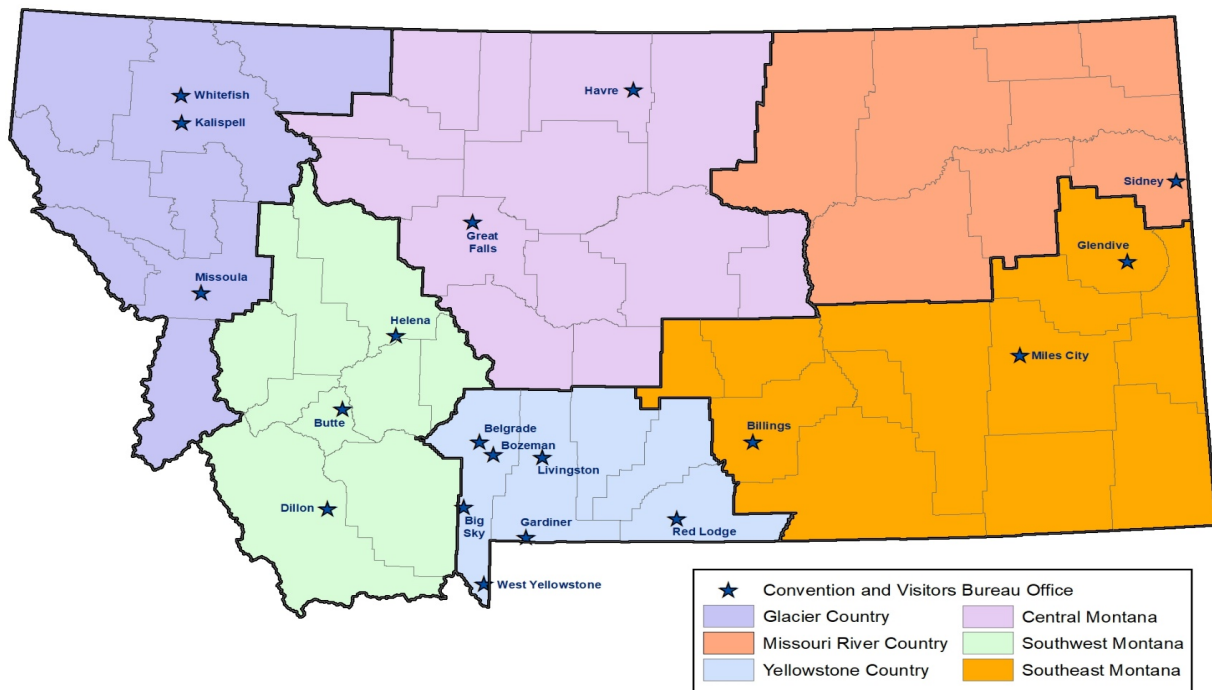
Established in state law, the Tourism Advisory Council (TAC) acts as an oversight for the department and MOTBD. The role of TAC is outlined in §2-15-1816, MCA. No less than 12 members are appointed in staggered three-year terms by the governor from Montana's private sector travel industry, including 1 member from a tribal government and 1 tribal member from the private sector. Each of the six tourism regions are required to have representation as well. The council oversees distribution of funds to each region and CVBs, namely by granting budget approval for each organization's marketing plan on how to spend bed tax funds over the course of a fiscal year. Regions and CVBs may not receive any bed tax funds until their marketing plans are approved by TAC. In fiscal year 2017, TAC approved 24 marketing plans worth over \$8 million combined in bed tax funds. The expenditure of these funds is guided by a Regulations

and Procedures department document for regions and CVBs and referenced in ARM 8.119.101. In addition, TAC provides general advice to the department related to tourism promotion. TAC also approves travel research carried out by the University of Montana's ITRR. On an annual basis, ITRR receives 2.5 percent of the collected state bed tax for travel research purposes, with TAC prioritizing those research projects on an annual basis.

Tourism Regions and Convention & Visitors Bureaus

MOTBD is statutorily obligated to allocate a portion of bed tax revenues to certain qualifying regional and local nonprofit organizations dedicated to tourism marketing and promotion. These nonprofit organizations fall into one of two categories: tourism regions and CVBs. The number of regions in the state is currently set at six by TAC, although TAC may modify the tourism regions if it so desires. Tourism regions receive 22.5 percent of bed tax revenue from their region of the state. However, this amount fluctuates depending on the number of CVBs within a region's territory. There are currently 19 CVBs across the state, although this number may increase or decrease depending on which communities qualify to have a CVB based on criteria set in §15-65-121, MCA. Per state law, a nonprofit organization in a local area within the city limits, consolidated city-county, resort area, or resort area district may qualify to be a CVB if 22.5 percent of the amount of bed tax revenues in that area exceeds \$35,000. Fifty percent of that revenue goes to the region in which the CVB resides. The remaining 50 percent in bed tax revenue goes to the CVB itself. A local area can have only one CVB, and it must have the backing of a local government authority, such as a city council or county commission, to be approved as a CVB. For the period of our review (fiscal year 2017), there were 18 CVBs around the state. However, the city of Havre qualified as a CVB in late 2017, bringing the total number of CVBs to 19. Figure 2 (see page 6) provides an illustration of the current six tourism regions and 19 CVBs located across Montana.

Figure 2
Montana Tourism Regions and CVB Locations



Source: Compiled by the Legislative Audit Division from department records.

In fiscal year 2017, the six tourism regions and 18 CVBs operating at this time were awarded a total of over \$8 million. Regions and CVBs must have their annual marketing plan approved by the TAC before receiving funds. Regions and CVBs work alone, together, and with the department in devising marketing strategies and promotions for their specific areas of the state. The following two tables illustrate the allocation of bed tax funds to the six tourism regions and 18 CVBs active in fiscal year 2017.

Table 2
**Total Bed Tax Allocations to Tourism Regions for
 Approved Marketing Plans
 FY 2017**

Region	Bed Tax Allocation
Central Montana	\$447,886
Glacier Country	\$1,650,000
Missouri River Country	\$268,691
Southeast Montana	\$638,300
Southwest Montana	\$416,560
Yellowstone Country	\$2,016,000
Total	\$5,437,437

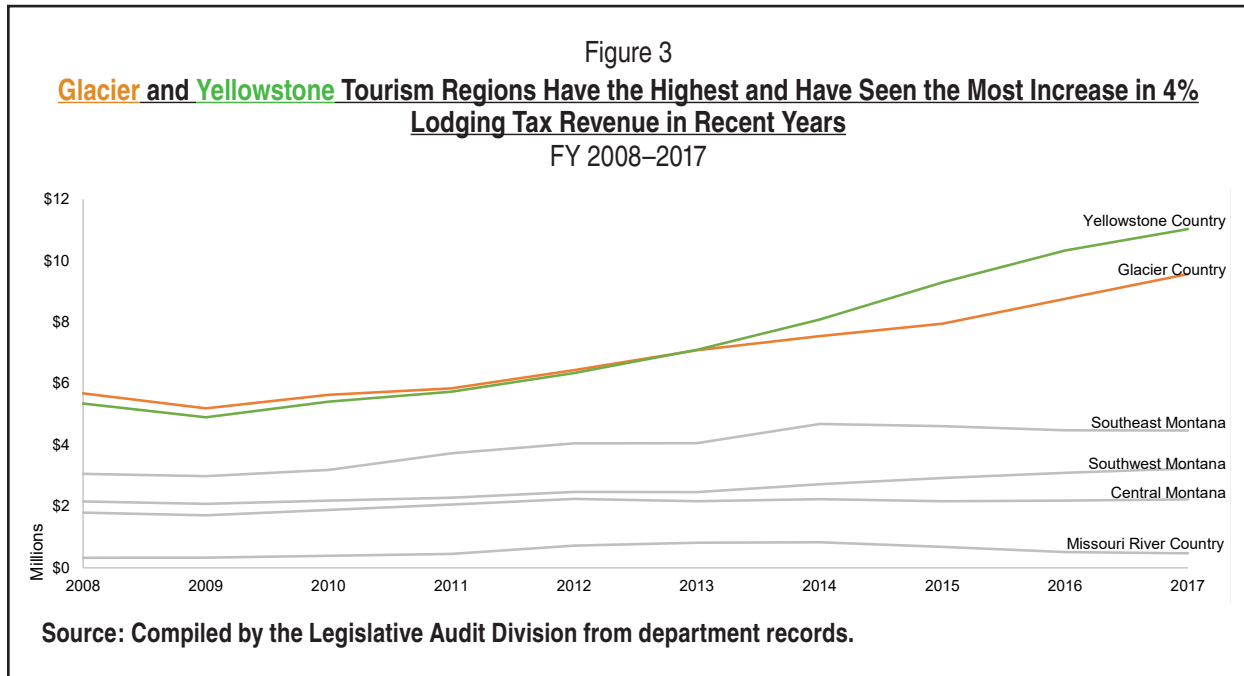
Source: Compiled by the Legislative Audit Division from department records.

Table 3
Total Bed Tax Allocations to CVBs for Approved Marketing Plans
 FY 2017

CVB	Bed Tax Allocation
Belgrade CVB	\$39,200
Big Sky CVB	\$293,540
Billings CVB	\$441,895
Bozeman CVB	\$428,000
Butte CVB	\$110,910
Dillon CVB	\$25,800
Gardiner CVB	\$45,739
Glendive CVB	\$22,000
Great Falls CVB	\$169,651
Helena CVB	\$142,000
Kalispell CVB	\$130,000
Livingston CVB	\$26,999
Miles City CVB	\$35,000
Missoula CVB	\$296,713
Red Lodge CVB	\$21,150
Sidney CVB	\$26,900
West Yellowstone CVB	\$387,836
Whitefish CVB	\$137,703
Total	\$2,781,036

Source: Compiled by the Legislative Audit Division from department records.

Figure 3 (see page 8) provides total bed tax revenue raised in each of the six tourism regions from fiscal year 2008 through 2017. As illustrated by the figure, bed tax revenues have remained fairly static in most regions, except for the Glacier and Yellowstone regions which have greater urban population centers and tourism attractions.



Report Contents

The remainder of this report includes chapters detailing our findings, conclusions, and recommendations in the following areas:

- ◆ Chapter II addresses the awarding and administration of the state marketing contract and improvements in the administration of tourism grants issued by the department.
- ◆ Chapter III addresses the department's oversight of tourism regions and CVBs, ways to improve the support and evaluation of regional marketing methods, and improving documentation of tourism activities administered by the department.

Chapter II – State Marketing Contract and Tourism Grant Program

Introduction

Our first audit objective focused on determining if the Department of Commerce (department) monitors the impact and effectiveness of its tourism marketing activities. Our work focused on the awarding and administration of the state marketing contract and administration of the department's Tourism Grant Program. As part of our work, we assessed whether the department appropriately awarded the state marketing contract in 2016 and if it monitors the state marketing contract activities. We also reviewed the processes by which the department selects and monitors tourism grants.

Our work found the department followed appropriate procurement practices when it reviewed and awarded the state marketing contract in 2016. We also determined the department actively manages the contract. We determined the department conducts marketing research and analysis in accordance with industry standards to measure the effectiveness of its tourism marketing activities. However, we identified areas for improvement in how the department selects and monitors the tourism grants it issues. Our review of tourism grants found a lack of consistent support for awarding grants, as well as a need to improve evaluation of the impact of completed grants. This chapter discusses our conclusions, findings, and recommendations related to the state marketing contract and tourism grants issued by the department.

State Marketing Contract Award Process Received Public Scrutiny

When the state marketing contract was awarded to the current vendor in 2016, there was considerable media attention given to the process. Concerns raised included how the department selected an out-of-state vendor and the perception that there were conflicts of interest with department staff and their evaluation process when reviewing and approving the vendor. Because of these concerns, we reviewed the request-for-proposal (RFP) process used by the department to review and award the current marketing contract.

Department Established a State Marketing Contract RFP Review Process

At the onset of the 2016 state marketing contract RFP, the department issued a guidance to prospective contractors explaining its evaluation process. This included a scoring guide, weighted evaluation criteria, cost proposal formula, and a description of

the RFP process for any interested respondents. The evaluation process was split into three tiers worth a combined 10,000 points. Each is described below:

- ♦ Tier one was worth a total of 5,500 points and consisted of the respondent's response to the RFP, outlining its profile, experience, and qualifications for the contract. Evaluation criteria consisted of five categories and 35 sub-categories. If the respondent did not receive at least 75 percent of the available 5,500 points in tier one (4,125 points), it was eliminated from further consideration.
- ♦ Tier two review was worth 2,000 points and consisted of a cost proposal formula for each respondent, with 14 weighted cost categories. Maximum points per category were awarded to the respondent with the lowest cost proposal, with other proposals receiving a percentage of the points available based on their cost relationship to the lowest proposal in that category. After tier two's conclusion, the department would invite up to five of the highest-scoring respondents remaining to deliver a maximum two-hour presentation as tier three of the process, so long as they were within 1,250 points of the highest scoring respondent. If no other respondent was within 1,250 points of the highest scoring respondent at that point, the department retained the right to award the contract to the highest scoring respondent.
- ♦ The tier three review consisted of respondent presentations for the five highest-scoring respondents from the tier two review. This tier was worth 2,500 points over seven different categories. After the three-tier process, whichever responding applicant had the most points would be awarded the contract.

We examined the RFP process used to award the state marketing contract. We reviewed the proposals of all 11 respondents, including cost proposals, and compared the consensus scores each received from the proposal review team to the established scoring criteria. We also reviewed the presentations of the five respondents selected as part of the tier three review and again compared the consensus scores each presentation received to the established scoring criteria.

Steps Were Taken to Address Potential Conflict of Interest

We also examined the steps the department took throughout the procurement process leading up to the awarding of the state marketing contract. Before reviewing the proposals, each member of the department's RFP review team submitted attestations on whether they had any potential conflicts of interest. We noted a member of the department's RFP review team attested to having a conflict of interest and disclosed they had a relative who worked for one of the applicants. Upon review, the Department of Administration State Procurement Bureau determined the conflict of interest was minor since the relative was not directly involved in the proposal. It was determined the RFP review team member could remain involved in the process so long as several conditions were met. These conditions included adding an additional member to the

department's RFP review team and including an employee from the State Procurement Bureau in all meetings held by the team. The review team consisted of four department management staff and one staff member from state procurement. These conditions were implemented and allowed the department to ensure a control was in place to mitigate any perceived conflicts of interest.

Vendor Review Scores Were Supported

The department received 11 proposals in response to its 2016 state marketing contract RFP. We reviewed all 11 of these proposals and compared the consensus scores each proposal received from the department to the criteria established in its scoring matrices based off the RFP itself. We found support for the review process and the scores each proposal received from the department's review team. Per the conditions laid out in the RFP, the top five scoring proposals were invited to deliver an in-person presentation of their proposals to the department. We reviewed each presentation for content and substance, again comparing it to established scoring matrices. We found documented support for the scores each presentation received from the RFP review team. As per the process established in the RFP, the respondent with the highest combined proposal and presentation score was awarded the state marketing contract.

The Department Actively Manages the Current Marketing Contract, Including Performance Improvements

We reviewed how the department manages the current marketing contract to ensure promotion of tourism activities meets contractual requirements. The vendor is contracted to deliver integrated marketing and promotion services for the state of Montana. The department reimburses the vendor several million dollars a year for these services. We noted the department conducts an annual review process by which a department review committee grades the vendor on 37 performance marks and standards. In our review of the annual review performed in May 2018, we noted numerous concerns identified by the review committee regarding the overall performance of the vendor in meeting contract expectations. The consensus of this committee was the contracted vendor was "passing" 19 benchmarks, "needing improvement" on 13 benchmarks and "failing" 4 benchmarks. One benchmark was graded as not applicable, as the department had not requested the contractor provide website development services as outlined in the original contract, with these services being fulfilled by another vendor. A summary of some of the improvements from the contract review committee are noted below.

- ♦ Unfamiliarity with Montana both geographically and culturally, leading to a disconnect between the department's expectations and some of the services/products delivered. For example, department staff noted that the contractor creative team was unprepared to answer questions on how concepts integrate with media placement.

- ♦ Struggle to use the established Montana brand. Department staff indicated there was a lack of deep understanding on the part of the contractor of Montana's products and experiences, with a lack of familiarity with the state.
- ♦ Poor communication, including multiple requests for updates by the department before hearing back. Because of a lack of communication, there were concerns the contractor represents themselves as uneducated with the state and its products, towns, and partners.
- ♦ Rushed timelines and projects leading to additional expenses. Department staff identified a lack of understanding of creative requests, where multiple rounds of concepts were required, resulting in additional time and expenses.

Because of these shortcomings, the contract review committee opted to place the vendor on a probationary status, with a corrective action plan jointly developed between the department and the vendor to address the deficiencies identified. The committee recommended the department renew the contract but require the vendor to meet defined deliverables or face termination of the contract.

The department followed up with a mid-year review of contract expectations in December 2018. Department staff and our review of documentation indicated the vendor made improvements in some areas, such as more closely aligning marketing efforts with the Montana brand and values. Other areas such as the need to have a senior staff member for the contractor be in Montana were still underway. Based on the December 2018 review, department staff indicated having the contractor place a senior team member in the Helena office was a priority, as this has led to a gap in creative input from the contractor. Most recently, the department conducted a contract performance review in May 2019 and decided to renew the contract for another year. The result of this review indicated the vendor has continued to make improvements in the areas previously identified as deficiencies, with the department's review highlighting many positive aspects of the ongoing work of the vendor. The annual review also indicated there are still several areas in need of improvement, such as the need to more forcefully leverage social media opportunities to promote tourism in Montana. According to department staff, they are currently in the process of developing a new plan of action to address ongoing areas of improvement. While our review indicated the department has taken active steps to manage the marketing contract, their annual reviews have identified ongoing areas for improvement regarding the performance of the contractor. It will be important for the department to continue to manage the contract in a way that ensures the effective promotion and marketing of tourism-related activities in the state. If contract issues continue, the department may need to consider reissuing the contract in the future.

CONCLUSION

The department followed procurement best practices for the selection for the current state marketing contract. The department actively manages the contract and has identified needed improvements regarding the performance of the contracted vendor. If issues continue, the department may need to consider reissuing the contract in the future.

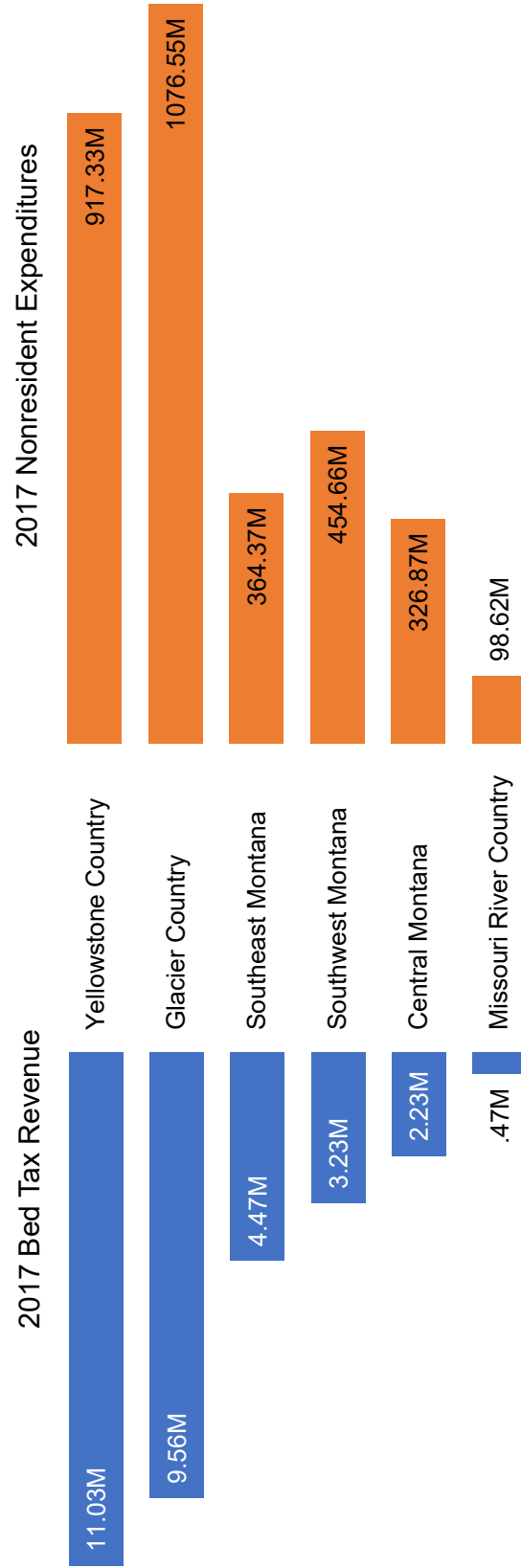
The Department Conducts Research and Analysis by Industry Standards

State destination marketing organizations, like the department, rely on accurate information to make informed decisions. This helps them decide where to best invest limited marketing resources and determine if past investments were worthwhile. The department contracts with a private sector vendor, separate from the marketing contract vendor, to conduct studies of past marketing campaigns. Studies conducted include calculating the number of incremental visitors from various types of marketing campaigns. Incremental visitors are the number of visitors which visited Montana specifically because of a marketing campaign. Conversely, these same studies identify the type of visitor most likely to be interested in traveling to Montana and what kind of media they typically consume. For example, the department uses these studies to direct the investment of marketing resources by targeting high return demographics. In addition to these studies, the department uses digital methods for tracking effectiveness of marketing campaigns. These methods include using commercially available programs which allow for tracking of mobile phones which have viewed a travel advertisement for Montana or spent time on the state's travel website. If the end user decides to visit Montana, their cell phone data will show when they make the trip. Similarly, commercially-available information from major credit card companies also allows the department to track when and where nonresident visitors are making purchases in the state.

Another resource the department uses is the Institute for Tourism & Recreation Research (ITRR), based out of the University of Montana in Missoula. ITRR conducts travel and recreation research in Montana, including statewide nonresident travel surveys estimating nonresident visitation numbers, how much travelers spend while visiting the state, and several other metrics. ITRR also makes an annual estimate of the economic contribution of nonresident travelers to Montana's economy. The department uses this publicly-available information as well, to help understand how past marketing campaigns fared or to identify other factors that have affected the tourism industry in Montana. As part of our work, we examined bed tax revenues relative to nonresident

visitor spending. One factor commonly examined is the relationship between the amount of bed tax revenues and the amount of nonresident visitor spending. For example, the bed tax revenue for the Yellowstone Country tourism region in calendar year 2017 was approximately \$11 million, while nonresident travel spending for the same period was approximately \$917 million. According to department staff, there are many factors that likely influence an individual's decision to travel to Montana, with department promotion efforts playing a role. While this comparison illustrates there is an expected relationship between nonresident visitor spending and bed tax revenue, with bed tax revenue one potential indicator of nonresident visitor spending, there are additional factors which may influence an individual's decision to visit Montana. For example, an individual may be influenced by friends or family or become aware of Montana as a destination through other media means rather than those directed by the department or by tourism regions or CVBs. Figure 4 (see page 15) illustrates the bed tax revenue generated in each of the state's six tourism regions and the expenditures of nonresident visitors in those regions for calendar year 2017. As illustrated by the figure, nonresident expenditures in all cases exceeds the amount of bed tax revenue from that region. As expected, our work indicated that nonresident expenditures typically exceed bed tax revenues.

Figure 4
Bed Tax Revenue and Nonresident Expenditures for Tourism Regions
 (in millions of dollars)



Source: Compiled by the Legislative Audit Division from department records.

We also reached out to other states to learn how they conduct market research and analysis. We spoke to state marketing officials in Idaho, South Dakota, Utah, and Wyoming. We found all states had similar or identical methods for conducting research and analysis of their marketing efforts as Montana. For example, officials in Utah also contract with an outside entity to evaluate the effectiveness of marketing campaigns, with that entity conducting surveys before and after marketing campaigns to gauge the effectiveness of these various efforts. All states contracted with an outside vendor to assist in research and analysis, with all states embracing digital tracking abilities.

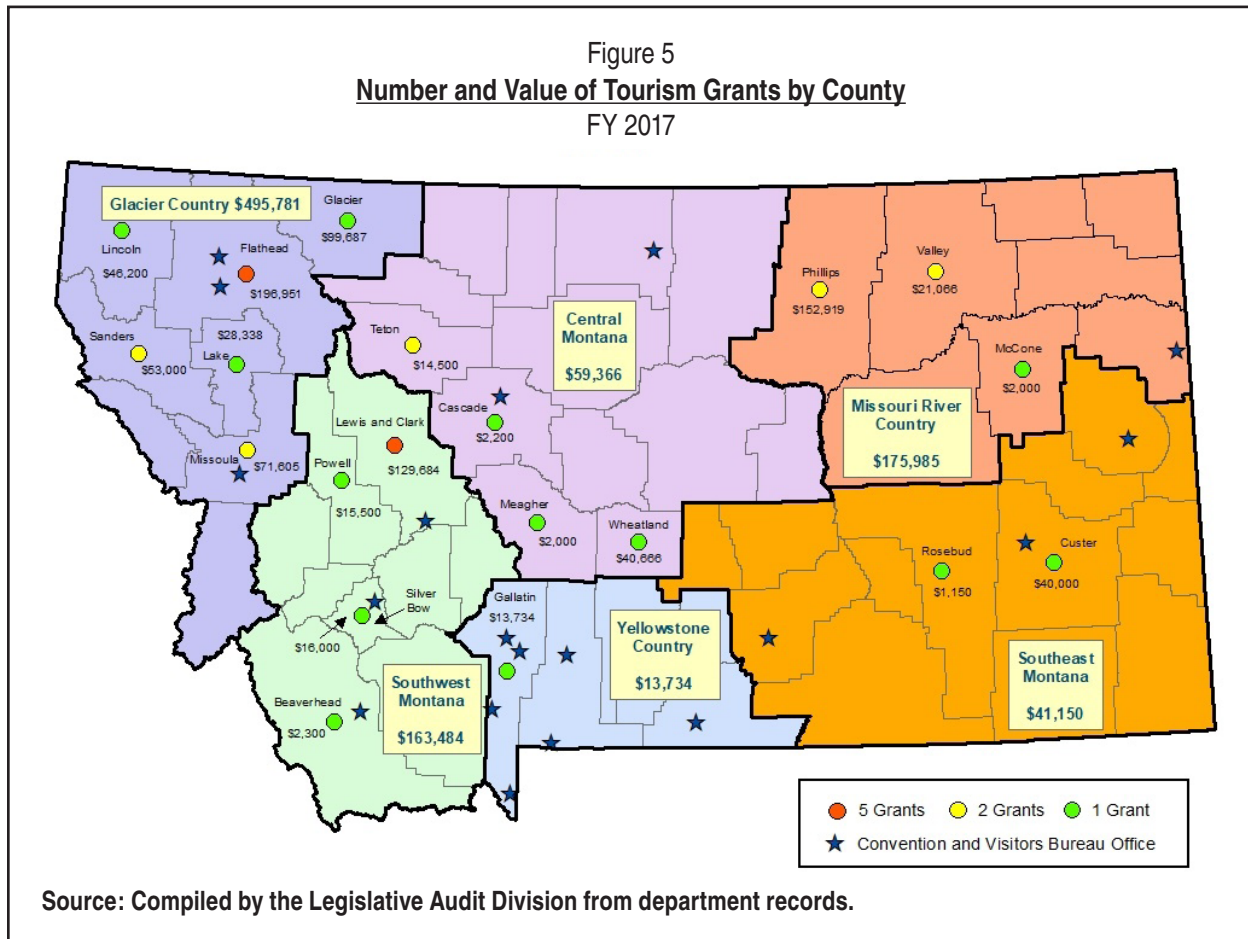
CONCLUSION

The department conducts market research and analysis common by industry standards to gauge the effectiveness of tourism promotion activities, including employing conversion studies, digital tracking, and other evaluative activities. Department research and analysis activities help ensure tourism promotion efforts are effective and bed tax expenditures are impactful.

Tourism Grants

In fiscal year 2017, the department received 78 applicants and awarded 33 tourism grants totaling \$949,500. To apply for a grant, interested organizations submit a grant application via an online program, answering a series of questions to establish their eligibility and the merits of their proposed project. These applications are given an initial review by department staff, largely to determine eligibility as established in the department's tourism grant policy. This initial review team consisted of the grants manager and assistant grants manager. Eligible organizations include registered nonprofit 501(c) organizations, tribal governments, and city or county governments. For example, in fiscal year 2017, Montana organizations which applied for grants included local chambers of commerce, cities, and various community organizations, such as local theaters and museums. These initial reviews also score each applicant on a scale of -4 to 4. Each reviewer also gives a brief written rationale for how they scored an application. All applications are forwarded to a final review team, regardless of eligibility or initial score. The final review team consisted of five management staff from the department. According to department staff, all applications are forwarded because the final review team needs to be prepared to let denied applicants know why their applications were not selected for a grant. Per department staff, the final review team decides which applications to propose awarding a tourism grant, with the final approval ultimately given by the department director. Each member of the final review committee rates each application on a pass/fail basis. The final review committee then

meets to reach consensus on which applications to award a grant. Figure 5 illustrates the distribution and value of tourism grants awarded by the department in fiscal year 2017 by county to each of the state's six tourism regions.



Tourism Grants Are Awarded Without Documented Justification or Rationale

Our work identified several weaknesses in how tourism grants are reviewed and awarded to recipients. We reviewed tourism grants awarded by the department during fiscal year 2017 since this was the most recently completed grant cycle at the time of our audit. We noted decisions made by the final review team were not documented. While department staff maintain grants are awarded based on the established criteria in policy, department staff were unable to provide documentation supporting this. We tracked which grant applications were approved and denied compared to the initial review scores each application received.

There were a total of 78 tourism grant applications received by the department for fiscal year 2017 and we reviewed initial scores for 69 of these applications. For the other 9 applicants, initial scores were not documented. According to department staff, three grants were part of a pilot program directed at tourism trade show assistance. However, there was no guidance or documentation available from the department regarding how these grants were reviewed and awarded. These three grants will be discussed in the following chapter. The three grants totaled nearly \$7,000. For six grants, although the department was able to provide us with application materials, there was no documentation of the initial review process. It was unclear why these grants were passed along for final review and approved by the department. These six grants totaled \$211,564. The following table provides a listing of those six grants, including the name of the organization, the city in which the organization is located, the purpose of the grant, and the amount of the grant.

Table 4
Examples of Unsupported Awarded Tourism Grants
FY 2017

Organization	City	Purpose	Amount
Range Riders Museum	Miles City	Repairing walls, insulating, new outlets and lighting, restroom plumbing, and paint and carpet.	\$40,000
The Roxy Theatre	Missoula	Front ticket booth window installation, renewing the facade, and installing a replica neon marquee.	\$67,605
Montana Dude Rancher's Association	Helena	Website redesign to increase functionality.	\$3,766
Ninepipes Museum of Early Montana	Charlo	Installation of a new heating and air conditioning system.	\$28,338
Wheatland County Chamber	Harlowton	Upgrade existing electrical system and functionality for camping.	\$40,666
Blackfoot Pathways	Lincoln	Purchase and installation of wheelchair accessible toilets, development of wheelchair accessible walkways, and way-finding signage.	\$31,189

Source: Compiled by the Legislative Audit Division from department records.

As discussed, we reviewed the initial review scores for the 69 grant applications for which initial scores were available. We determined the initial review score was not the only factor in determining which grants were awarded funding. Table 5 (see page 19) illustrates the initial review team scores for the 69 grants we reviewed as a part of our work. The table is comprised of three rows, the first of which is the possible initial review team score, the second row is the number of applications which received that score, and the third row is the number of grants ultimately awarded with those scores.

For the 33 grants awarded for fiscal year 2017, the below table includes the 24 awarded grants for which an initial review score was available. While awarded, the 9 grants noted above did not have initial scores available to review. Table 5 illustrates that it is unclear what the relationship is between the initial review score and why a grant was ultimately awarded.

Table 5
Available Initial Review Scores for Tourism Grants

Possible Initial Review Score	-4	-3	-2	-1	0	1	2	3	4
Number of Applicants Received Score	5	22	6	6	8	1	3	14	4
Number of Awarded Grants Received Score	0	1	0	1	3	0	2	13	4

Source: Compiled by the Legislative Audit Division from department records.

As can be seen in the above table, five grants received a zero or below as part of the initial review but were still ultimately awarded by the department. For example, one of the grants which was awarded received an initial review score of -3 with reviewer comments stating that the applicant lacked the appropriate cash match. Nonetheless, the applicant was ultimately awarded nearly \$20,000. For the five grants applicants that received an initial review score of zero or less, total funding awarded to these grants totaled approximately \$50,000. Conversely, there were three grant applications with a positive initial review score which were not awarded by the department. While there may be reasons for differences between the initial review scores relative to grant awards, the department was unable to provide any documentation as to why some grants were awarded and others were not. The initial review score does not appear to be the only factor in awarding grants. Without documentation, the rationale behind these decisions is unknown. Overall, our audit calls into question the credibility of how tourism grants are awarded, with the process lacking transparency.

Other State Practices and State Policy Calls for Documenting Grant Awards

We reviewed other states' tourism grant review and award processes. We found other states with grant programs like Montana's have clear criteria for scoring applications and documenting and supporting decisions for their awards process. For example, Utah has a similar grant program as Montana's, but it has well-defined grant application evaluation standards. Utah has established a point-based scoring system with several

weighted categories such as clearly defined project goals and objectives as part of its tourism grant evaluation process. Each grant applicant must meet a minimum average score from the review committee members to be considered for funding, providing clear parameters for how grants are awarded. In Utah, out of a possible 100 points, an applicant must receive a score of 70 points or higher from a majority of the review committee members to be considered eligible to receive funding. In addition to other states, state policy in Montana relating to opening and awarding solicitation responses require evaluation committees keep meeting minutes and a master-scoring sheet documenting total scores for each proposal.

The Department Lacks Procedures for Documenting Awarded Tourism Grants

The department currently does not have procedures outlining expectations for reviewing and awarding tourism grants, including procedures for how tourism grant award decisions should be documented to support award decisions. During our audit, the department began drafting a procedure for documenting tourism grants award decisions. The department has not yet implemented the process at this time. This draft procedure calls for the final review team to keep notes to document why certain applications are awarded grants and others are not, including applications be evaluated based on the established criteria with documentation of how awarded grants meet those criteria. Department staff indicated this new procedure will be implemented for the next cycle of tourism grants.

RECOMMENDATION #1

We recommend the Department of the Commerce develop and implement procedures to document and support grant award and nonaward decisions for tourism grants based on established grant award criteria.

Measurement of Tourism Grant Impacts Can Be Improved

Each tourism grantee is required by contract to submit a final report to the department within one year of their project's completion and before September 1 of the subsequent fiscal year. However, the contract and current department guidance does not provide details on what the contents of a final report should include or what constitutes a project's success. Our review of all 33 tourism grants awarded in fiscal year 2017 found wide variations in the quality and substance of final reports. Several reports did not provide any indication of project outcome, and many others provided little in the way

of details. Our work found 9 of 33 (27 percent) of the final reports did not provide clear indication of whether the project was a success. For example, one grantee with a project related to increasing museum attendance submitted a final report only noting the project had been completed, with no indication of what attendance goals were set or what would constitute success. This grant totaled \$40,000. Similarly, another project consisted of rebuilding a community grandstand structure, with the goal of increasing local rodeo attendance. This grant totaled \$15,500. While the final report indicated the rebuilding effort was a success, there was no information submitted regarding what attendance goals were or if those goals were met. The total amount of funding awarded to these nine grants was \$393,486.

Content and Use of Final Reports Is Not Standardized

The department does not have an internal grant administration procedure providing guidance to grantees on how the impact of grants should be evaluated or the information these reports should contain. Consequently, the quality of these final reports varied and provided limited use in assessing how grant monies were being used. We determined the final reports represented more of a formality than a substantive part of the grant program, providing limited accountability for the use of these public funds. For example, according to department staff, final reports are generally used as anecdotal examples for future prospective applicants to use as a model for similar projects instead of being used to evaluate if a project achieved its goals or had its intended impact. Department staff indicated these final reports were frequently used as part of media material generally for the purposes of program outreach. Final reports are commonly used in press releases to anecdotally highlight the success of the grant program. The final reports are not used by the department as benchmarks for future grant applications or to measure the impact of these public funds.

Other States Offer Best Practices for Grant Evaluation

We contacted other states in the region to discuss their processes to evaluate tourism grant programs and how these processes compare to the department's. We found other states had more defined processes to evaluate their tourism grant programs. For example, we noted the Utah Office of Tourism uses a structured template outlining what is required of grantees as part of a final evaluation report. Prospective grantees are required to estimate the projected impact and returns their grant will have and then use the structured template to record the actual impact and returns of their project. This requires tourism grant recipients to more fully evaluate the success and impact of their tourism grants. In this manner, awarded tourism grants in Utah require more accountability for the issuance of public funds to support marketing efforts for tourism-related organizations.

Impacts of Tourism Grants Should Be Measured

While the department has wide discretion in how it spends bed tax dollars in support of promoting tourism in the state, it is critical these limited funds be invested in a way which spurs additional visitation across the state. The department's tourism grant efforts represent an opportunity to help local organizations and communities increase visitation to their areas. It is important the success of awarded tourism grants be measured to ensure meaningful use of bed tax funds. More robust efforts to evaluate the impact of these public funds could provide important information to key stakeholders, such as legislators and tourism-industry officials, including what types of projects have the most impact on promoting tourism growth in Montana. The department could use this information to inform future grant applicants and incorporate evaluation expectations into the award process for issuing tourism grants. By not requiring grantees to submit a structured evaluation of the impact of an awarded grant, the department is unable to easily determine which grants are most successful and which are less successful. While we recognize not all grant activities may lend themselves to be easily evaluated, a lack of a structured evaluation process represents a missed opportunity in educating future grant applicants or guiding grant applicants on how to measurably evaluate the impact of tourism grants. This raises the possibility of grants being approved which have a lesser impact promoting and marketing a Montana community as a tourism destination.

RECOMMENDATION #2

We recommend the Department of Commerce develop and implement:

- A. *A process with defined criteria to measurably evaluate the impact of tourism grants or document why an individual grant's activities are not measurable, and*
 - B. *Clear guidelines for grantees to follow and a structured template to use as part of a final reporting process.*
-

Chapter III – Regional Tourism Organization Oversight and Overall Documentation

Introduction

Our second objective focused on determining if the Department of Commerce (department) ensures the six regional tourism organizations and 19 Convention & Visitor Bureaus (CVB) across Montana expend state bed tax funds in accordance with statutory and department requirements. This includes measuring outcomes of regional tourism marketing efforts. Our work found the department conducts financial audits on an annual basis to ensure regions and CVBs meet the legal spending requirements of applicable rules and regulations. While this was positive, our work also determined regions and CVBs do not consistently support their various marketing methods with required research into the basis upon which the marketing method was selected. We also found the department does not consistently require regions and CVBs to evaluate the impacts of marketing methods used to promote tourism in their region of the state. In addition, over the course of the audit we observed a pattern of inconsistent documentation related to tourism grants and for financial reporting processes in the department for region and CVB activities. This chapter discusses our findings, conclusions, and recommendations related to region and CVB oversight and documentation issues within the department.

Field Interviews and a Survey Helped Gauge Region and CVB Opinions

As part of our work for this objective, we gained insight from regions and CVBs via field interviews with several of these organizations and a survey sent to every organization. We visited 13 of the 25 tourism organizations, including each of the six regions and at least one CVB from each region. We conducted interviews with small, medium, and large organizations across the state, since the nature of the challenges facing these organizations varies in part by their size and geographic location. We discussed the challenges these organizations face and how they view working with the department and the Tourism Advisory Council (TAC) in promoting tourism across Montana. These interviews were instrumental in gaining the perspective of some key department stakeholders. Some common themes emerged from these discussions. Overall, many believe the way bed taxes are allocated is fair, although more funding would be welcome. Several also believed certain aspects of the marketing requirements could be improved or modernized. Many organizations find the evaluation requirements in the department's regulations and procedures to be either too cumbersome or not clear enough to follow. Some viewed evaluation reports as more of a formality than

a genuine exercise in evaluating marketing method effectiveness. We supplemented our on-site interviews with a survey to all 25 regional tourism organizations. With an overall response rate of 68 percent, survey respondents were generally positive regarding their interactions with the department and TAC. However, we received further confirmation that the evaluation requirements in the department's regulations and procedures are unclear, with regional tourism staff seeking more guidance on how to meaningfully evaluate the marketing methods used to promote tourism in their regions.

The Department Ensures Regions and CVBs Follow Spending Regulations

The department's regulations and procedures are comprised of the statutory basis and TAC-approved procedures which outline various spending requirements and restrictions of bed tax funds for regions and CVBs. These regulations and procedures are incorporated by reference into ARM 8.119.101. This includes what is and is not allowed as administrative expenses, limits on administrative expenses as a percentage of spending, eligible and ineligible marketing expenditures, bidding and request for proposal processes, and overall fiscal management and bookkeeping responsibilities. For example, regions and CVBs may not expend more than 20 percent of bed tax funds on administrative expenses. To ensure all these requirements are being met, the department conducts an annual financial audit of each region and CVB. Our review determined that these financial audits are comprised of a review of every financial transaction the audited organization made over the past fiscal year. If an organization had any nonallowed expenses, they are required to recapture the bed tax funds. We reviewed the department's fiscal year 2017 financial audits of all 24 regions and CVBs in existence at that time and found the audits to be well-documented and all identified issues resolved. Examples of issues identified by these audits included items such as missing invoices or expenses not properly entered into the department's online reporting platform. At the end of each audit, department staff issue a final report indicating if the concerns had been resolved. Overall, we found these audits help ensure tourism regions and CVBs meet the legal spending requirements tied to bed tax funds they receive and are spending bed tax funds within the boundaries defined by state law and TAC.

Region and CVB Marketing Plans Lack Complete Research

Regions and CVBs are subject to oversight from the department and TAC. These requirements are outlined in a document titled "Regulations and Procedures for Regions/CVB Tourism Organizations Use of Lodging Facility Use Tax Revenue." TAC's authority is outlined in §2-15-1816, MCA. The department's responsibilities are outlined in the regulations and procedures themselves, which are approved by TAC.

Regions and CVBs are required to submit annual marketing plans to TAC for approval before receiving and spending any bed tax funds, as required in the regulations, procedures, and §15-65-122, MCA. Each marketing plan is comprised of individual marketing methodologies, which outline specific spending activities and goals for the upcoming fiscal year. Each marketing methodology is required to include research to support its inclusion as a worthwhile and meaningful investment of bed tax funds in tourism marketing and promotion in that region.

We reviewed marketing plans for the 24 regions and CVBs in existence in fiscal year 2017. Our work identified several regions and CVBs that did not include research for all their marketing methodologies as part of their online application and reporting requirements. We found nearly 10 percent of the total marketing methods employed by regions and CVBs in fiscal year 2017 lacked supporting research. For example, one organization proposed tourism-related website updates totaling \$12,000 with no indication of how the improvements would impact the organization or how success would ultimately be measured. Out of a total of 273 marketing methodologies reviewed, we identified 25 marketing methodologies with no supporting research. The total value of these unsupported marketing methods was approximately \$400,000. If marketing methods are not supported through research as required by the department's regulations and procedures, there is limited accountability regarding the use of these public funds. We also identified instances of more common methodologies not being researched as well, such as print advertising and press promotions. Per department regulations and procedures, TAC is supposed to take into consideration if a methodology is supported by market research or previous experience to be deemed viable. However, based on our review work, this is not consistently occurring.

Region and CVB Evaluation Reports Are Not Consistently Reviewed

Per the department's regulations and procedures, regions and CVBs are also required to submit evaluation reports for each of the marketing methods within their marketing plans before January 1 of the following fiscal year. Evaluation reports explain whether a marketing method used by the region or CVB was successful or not. Evaluation reports should use evaluation techniques which are measurable and quantifiable. However, not all marketing methods are easily measurable and require other indicators to track success.

We found fiscal year 2017 marketing plans for several organizations did not include end-of-year evaluation reports for all their marketing methods as required. This amounted to 7 percent of the total marketing methods employed by regions and CVBs during fiscal year 2017. Out of 263 marketing method evaluation reports

reviewed, we identified 16 marketing methods without the required evaluation report, totaling over \$75,000 that did not have the required evaluation report. For example, one organization received \$15,000 to attend a tourism-related trade show, with no evaluation of what would constitute success in promoting tourism in that region. The number of evaluation reports reviewed is less than the research methodologies reviewed above, because if an organization uses solely non-bed tax funding to complete a marketing methodology, it is not required to submit an evaluation report for that methodology. Evaluation reports are only required of bed tax funded methodologies. If marketing methods are not evaluated, there is limited accountability regarding the use of public bed tax funding, making it difficult to gauge the success of marketing plans and overall marketing efforts by regions and CVBs. For example, there were instances of organizations not evaluating methods such as publicity, outreach, and marketing personnel.

The Department Should Clarify and Enforce Research and Evaluation Requirements

Presently, department and TAC regulations and procedures outline requirements for researching marketing methods before implementation, as well as the need to evaluate marketing methods after implementation. However, the research and evaluation requirements do not clearly define what is expected for organizations to submit for either the research or evaluation component for each proposed marketing method. The department's regulations and procedures for marketing research and evaluation lack clarity for the expectations tourism regions and CVBs must follow. In addition, our work also found the department does not consistently require regions and CVBs follow the research and evaluation requirements that currently exist. For example, as noted, our review found that regions and CVBs did not consistently include any information regarding researching or evaluating marketing methods. The department tracks tourism region and CVB evaluation reports via a marketing plan review master workbook. This workbook acts as a checklist to ensure evaluation reports have been submitted as required, with department staff contacting organizations which have omitted reports or need to provide clarification. However, we found mixed results in the department's use of this workbook. The department does not routinely follow up with organizations to ensure missing evaluation reports are submitted as required.

RECOMMENDATION #3

We recommend the Department of Commerce work in conjunction with the Tourism Advisory Council to improve its oversight of Tourism Regions and Convention & Visitor Bureaus by:

- A. Revising and clarifying regulations and procedures for marketing methodology research and evaluation requirements.*
 - B. Enforcing regulations and procedures, including ensuring bed tax marketing methodologies have required marketing methodology research and evaluation requirements.*
-

Tourism Spending Is Consistently Not Documented

We noted the department inconsistently documents activities related to the distribution of tourism-related funding. This includes funding related to tourism grants and various financial reporting processes for tourism regions and CVBs. Documentation is an important tool in tracking and justifying how these funds are spent. A lack of documentation limits the accountability over how spending decisions are made. Based on current and past audit work, we determined there was a pattern within the department regarding inconsistent documentation for tourism-related activities.

Pilot Grant Program Created Without Clear Guidelines or Support

The department created a pilot grant program in fiscal year 2017 for tourism trade show assistance grants, which were funded as tourism grants. This pilot program was modeled after a manufacturing business trade show assistance program, offered by the department's Office of Trade and International Relations. This pilot program was rolled out without adopting new forms or guidelines related to tourism-related goals; the forms and guidelines used were designed for manufacturing businesses by the Office of Trade and International Relations. As a result, three grants were awarded under unclear conditions as part of this pilot program. Additionally, all three grantees were deemed to have qualified for incentives, resulting in grant funding bonuses delivered under unclear circumstances. For example, two of the grantees each received a \$200 bonus for being registered with "Visit Montana," although the reimbursement form stipulated this bonus is available to grantees who participate in "Made in Montana" instead. A third grantee received a \$500 bonus, supposedly for attending a trade show outside of the United States. However, the trade show attended was in Washington, D.C. Department staff indicated if a trade show has 10 percent

or more of attending companies from outside the United States, they consider it an international trade show per federal guidelines, and said this trade show met that threshold. However, the manner under which these grants were reviewed and awarded was not documented by the department.

In all three grantees' reimbursement forms, handwritten adjustments were made to each form to allow for the above reimbursements to take place. These adjustments ran contrary to the department's own Trade Show Assistance Program Guidelines. The department created an offshoot pilot program of the established manufacturing business trade show assistance program, without making any changes to the application or reimbursement form. The result was the appearance of grants and incentives being awarded seemingly arbitrarily and without any support. In all, nearly \$7,000 was used from the regular tourism grant program funding pool for these grants. According to department staff, the pilot program was discontinued after a single grant cycle.

Region and CVB Online Financial Reporting Missing or Unclear

In reviewing region and CVB online financial reporting processes, we found both regions and CVBs did not consistently provide updated financial information as required. In fiscal year 2017, none of the 24 regions and CVBs submitted a required updated budget chart showing a percentage breakdown comparing the budget versus actual expenditures for each marketing method. This information is required per the department's regulations and procedures as part of the evaluation reports submitted when marketing plans are completed. Similarly, not all regions and CVBs provided updated budget information comparing estimated and actual expenditures, whereas other organizations did do this. Current regulations require that regions and CVBs provide an updated budget comparing estimated budget amounts versus actual expenditures for each marketing method. In addition, some organizations had provided budget updates which contradicted the information in their evaluation reports. For example, one CVB noted no spending over the year as planned for a publicity marketing method. However, this CVB's budget information indicated \$2,000 was spent on the publicity marketing method, calling into question the accuracy of what is provided by organizations or submitted in evaluation reports. After we discussed this concern with department staff, the department directed regions and CVBs to make online updates to required financial reporting process information. According to department management, in some circumstances they have not clearly defined or enforced documentation requirements.

Documentation Is a Standard Management Practice

Documentation is a part of any effective internal control system. State policy outlines the need for an organization's management to establish and maintain internal controls through a coordinated set of policies and procedures used by both managers and line workers to ensure effective, efficient, and lawful operations of the organization. Internal controls ensure accountability within an organization. There are several main components of internal controls, including the need for an organization to identify and exchange relevant information. Without this information and corresponding documentation, an organization will struggle to maintain effective internal controls. Over the course of our work, we noted inconsistent documentation within the department was common due to the department not prioritizing documenting all relevant information or decisions. When reviewing the fiscal year 2017 tourism grants, there were no procedures guiding documentation expectations. Similarly, the regulations and procedures guiding regions and CVBs lack detail on how to document required information.

RECOMMENDATION #4

We recommend the Department of Commerce:

- A. *Prioritize documentation regarding awarding and issuing tourism grants and required financial reporting processes for Tourism Regions and Convention & Visitor Bureaus by clearly defining documentation requirements in policies and procedures.*
 - B. *Require documentation of tourism-related activities managed by the department, including tourism grants and required financial reporting processes for Tourism Regions and Convention & Visitor Bureaus.*
-

DEPARTMENT OF
COMMERCE

DEPARTMENT RESPONSE

TARA RICE
DIRECTOR



STEVE BULLOCK
GOVERNOR

October 11, 2019

Angus Maciver
Legislative Auditor
Montana State Capitol, Rm. 160
PO Box 201705
Helena MT 59620-1705

RECEIVED
OCT 15 2019
LEGISLATIVE AUDIT DIV.

Re: Performance Audit
Tourism Marketing and Promotion

Dear Auditor Maciver,

The Department of Commerce has reviewed the October 2019 Legislative Audit Division's report from the performance audit of our tourism and marketing promotion efforts. Our response to the recommendations are as follows:

Recommendation #1

We recommend the Department of Commerce develop and implement procedures to document and support grant award and nonaward decisions for tourism grants based on established grant award criteria.

Response #1

The Department concurs. Consistency and transparency are important. Since receiving feedback during the audit review, we have made improvements to the grant review and documentation process. We will continue to improve on consistent and transparent documentation, including an enhanced online grant application that provides explanations, helpful links, and the ability for the applicant to upload documents. Further, decision-making documents including team scoring matrices, comments, and scoring summaries will be retained in an electronic system for three years.

Recommendation #2

We recommend the Department of Commerce develop and implement:

- A. *A process with defined criteria to measurably evaluate the impact of tourism grants or document why an individual grant's activities are not measurable, and*
- B. *Clear guidelines for grantees to follow and a structured template to use as part of a final reporting process.*

TARA RICE
DIRECTOR



STEVE BULLOCK
GOVERNOR

Response #2

The Department concurs. Having measurable results and data to help guide future decision making is an important component of strategically investing in the tourism industry. When possible, grant recipients will be required to utilize SMART criteria to report on grant impact as part of the recipient's final report. When the impact of a grant is not measurable because of time constraints, is cost prohibitive, or lacks substantive measurable data, we will document why impact cannot be measured. A process for evaluating grant impact will be in place for the 2020 tourism grant cycle.

As to guidelines and structured templates, we have made improvements since receiving feedback during the audit review. In advance of the 2020 tourism grant cycle, we will create standardized templates for grant recipients, such as templates for detailed budgets, request for funds, and final reports. Further, we will ensure guidelines and templates are in place for all tourism grants, including pilot grant programs as they occur.

Recommendation #3

We recommend the Department of Commerce work in conjunction with the Tourism Advisory Council to improve its oversight of Tourism Regions and Convention & Visitor Bureaus by:

- A. *Revising and clarifying regulations and procedures for marketing methodology research and evaluation requirements.*
- B. *Enforcing regulations and procedures, including ensuring bed tax marketing methodologies have required marketing methodology research and evaluation requirements.*

Response #3

The Department concurs. Oversight of Tourism Regions and Convention & Visitor Bureaus occurs in conjunction with the Tourism Advisory Council (TAC) and their guidelines and regulations. TAC and the Department will review and clarify language related to regulations and procedures for marketing methodology research and evaluation requirements. Clarifying language and review forms will be presented to TAC for approval in February of 2020 and will be implemented in May of 2020.

In addition, the Department will immediately begin reviewing its current enforcement mechanisms related to bed tax marketing methodologies and will make improvements to ensure regulations and procedures are enforced. The Department will perform quality assurance to ensure records are complete and that we do not have an issue with missing or incomplete information. Improved enforcement mechanisms will be in place by spring of 2020.

Recommendation #4

We recommend the Department of Commerce:

- A. *Prioritize documentation regarding awarding and issuing tourism grants and required financial reporting processes for Tourism Regions and Convention & Visitor Bureaus by clearly defining documentation requirements in policies and procedures.*

TARA RICE
DIRECTOR



STEVE BULLOCK
GOVERNOR

- B. Require documentation of tourism-related activities managed by the department, including tourism grants and required financial reporting processes for Tourism Regions and Convention & Visitor Bureaus.*

Response #4

The Department concurs. We agree that accountability and transparency are essential as stewards of state resources. However, the department notes the tourism grant component of **Recommendation #4** was already addressed by the Legislative Audit Division in **Recommendation #1** and responded to by the Department in **Response #1**. Similarly, financial reporting on marketing methods was already addressed as part of **Recommendation #3** and responded to in **Response 3**. However, we will work in conjunction with TAC to clarify documentation requirements and prioritize documentation regarding financial reporting processes for Tourism Regions and Convention & Visitor Bureaus.

The Department thanks you for the diligent efforts of the Legislative Audit Division and for collaborating with us during the exit conference.

Sincerely,

A handwritten signature in black ink, appearing to read "Tara Rice". The signature is fluid and cursive, with the first and last names being clearly distinguishable.

Tara Rice, Director
Montana Department of Commerce